



HOUSE BUDGET COMMITTEE

Democratic Caucus

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The Bush Budget: Big Tax Cuts and Fuzzy Math

The Big Picture

- ***Tax Cut Masquerading as a Budget*** — The President has not submitted a true budget because too many important specifics have been left out. Hastily pursuing the largest budgetary item, namely the huge tax cut, in the absence of a budget reveals that the numbers don't add up. For example, the cost of the second biggest budgetary initiative, namely the increase in the defense budget, won't be known until just after their tax cut would take effect. Furthermore, the budget claims to provide resources in unspecified amounts for a variety of purposes out of a "reserve fund."
- ***The Tax Cut Is So Large That It Requires Tapping Into Social Security and Medicare Surpluses*** — The President's budget will divert funds from the Social Security and Medicare surpluses because the tax cut overwhelms all other priorities, not because there is a danger of doing too much debt reduction, as claimed. There are insufficient resources left after the tax cut to fulfill the President's own priorities; only the trust funds remain to meet his commitments.
- ***The Tax Cut Is So Large That It Leaves Inadequate Resources for a Medicare Prescription Drug Benefit or Needed Education Funding*** — By 2011, the budget increases Medicare-related spending by \$153 billion relative to current law. The budget earmarks these increases for both a prescription drug benefit and undefined Medicare reform. Many analysts believe that the total increases in the budget are woefully inadequate for a prescription drug benefit let alone a drug benefit and a reform package.

Prepared by the Democratic Staff of the House Budget Committee

- ***The Tax Cut Is Extremely Unfair, Disproportionately Granting the Most Benefits to the Most Affluent*** — The top 1 percent of the income distribution, taxpayers with incomes averaging over \$900,000 per year, would receive an average tax cut of \$46,000, more than the total annual income of half of American families. The top 1 percent receives 43 percent of the Bush tax cut's benefits even though they pay only 21 percent of federal taxes.
- ***The Tax Cut Is Based on 10-Year Budget Projections That Are No More Reliable Than 10-Year Weather Predictions*** — CBO believes that under plausible assumptions, the favorable revisions of the surplus seen in recent years could reverse, putting the budget back into deficit. With the first baby boomers beginning to retire in just seven years, we cannot run that risk.
- ***Democrats Call for a Balanced Approach*** — Democrats favor a realistic and balanced approach that provides for all of America's priorities: a sizeable and fair tax cut, paying off the public debt, and high-priority investments like education, a Medicare prescription drug benefit, and defense modernization.

The Bush Tax Cut

- ***True Cost of the Bush Tax Cut Is Understated*** — The President continues to use "fuzzy math" to claim that his tax cut only consumes one quarter of the surplus. Even taking his understated estimate of \$1.6 trillion at face value, the revenue loss from the tax cut is 29 percent of the unified surplus. If one includes the added spending on interest payments to bondholders that the tax cut will require, the figure rises to 35 percent. As a percent of the non-Social Security, non-Medicare surplus, the tax cut with debt service consumes 66 percent of the surplus. If one uses realistic estimates of the tax cuts provisions, the percentage rises even higher.
- ***Tax Fairness*** — The President continues to understate the lopsided nature of his tax cut. He claims that "the typical family of four will be able to keep at least \$1,600 more of their own money when the plan is fully effective." However, more than 85 percent of tax filers will get tax cuts less than that amount, and many will get nothing. Meanwhile, the top 1 percent, with incomes averaging more than \$900,000 per year, will get an average tax cut of \$46,000. The top 1 percent receives a whopping 43 percent of the tax cut's benefits even though they pay only 21 percent of federal taxes.

The President claims that his tax cut is fair because the percentage tax reductions in his plan are largest in the bottom. However, that amounts to saying that a waitress whose

income tax liability of \$200 is totally eliminated gets a larger benefit than a lawyer whose \$20,000 tax liability is cut in half.

- ***This is Economic Stimulus?*** — After months of justifying their tax cut as a needed economic stimulus to the economy this year, the Bush Administration now proposes a 2001 tax cut equal to only 0.001 percent (one-thousandth of one percent) of gross domestic product (GDP). The President has not acknowledged the true cost of making the tax cut retroactive, as he promised.

Medicare, Social Security, and the Rest of the Budget

- ***Raiding the Social Security and Medicare Trust Funds*** — President Bush's budget sets the stage for a raid on the Social Security and Medicare trust funds. Because of the cost of his enormous tax cut – at least \$2.0 trillion, including interest – the budget is left with a reserve of only \$842 billion over ten years without the Social Security surplus and \$316 billion without the Medicare surplus, with more than two-thirds of that reserve in the last five years.

Merely meeting President Bush's promise to hold defense spending constant as a percentage of GNP (from his speech at the Citadel – the promised defense funding is not yet included in the plan) would more than exhaust that reserve – meaning that any funding for Social Security or Medicare reform, a realistic Medicare prescription drug program, disaster relief, farm aid, or any other priority could come only from the Social Security and Medicare surpluses.

And though the Administration now denies the existence of the Medicare surplus – contrary to the unanimous votes by House Republicans just two weeks ago and last year – CBO estimates for the Medicare surplus show that the Bush plan already raids the Medicare trust fund in 2005, even with no spending from its purported reserve.

- ***No Credible Prescription Drug Benefit for Medicare Beneficiaries*** — By 2011, the budget increases Medicare-related spending by \$153 billion relative to current law. The budget earmarks these increases for both a prescription drug benefit and undefined Medicare reform. Many analysts believe that the total increases in the budget are woefully inadequate for a prescription drug benefit let alone a drug benefit and a reform package. Last year's House Republican plan was solely for prescription drugs. It carried a ten-year price tag of \$159 billion. That plan was also deemed by many analysts and the insurance industry as unworkable and unlikely to provide adequate protection against prescription drug costs for most Medicare beneficiaries.

- ***The President Provides Only a \$2.4 Billion Increase for Department of Education*** — The budget specifies only a few funding increases for the Department of Education. Of the total \$2.4 billion increase over a freeze at the 2001 level, \$1.6 billion is for elementary and secondary education programs and \$1 billion is for Pell Grants. Unspecified cuts of \$433 million leave a remainder of only \$233 million for increases in all other education programs, including special education, campus-based aid for higher education, and school renovation and repair.
- ***Overstating Department of Defense Funding*** — The budget provides \$310.5 billion for defense for 2002. Of this amount, \$3.9 billion is to comply with a new mandate to provide health care for Medicare-eligible military retirees. If this amount is excluded for comparison purposes, the budget is only \$200 million above the level needed, according to CBO, to maintain purchasing power for defense programs at their 2001 levels. In addition, the \$310.5 billion is only \$100 million more than the level recommended by the Clinton Administration for 2002.
- ***Appropriated Programs*** — The budget provides \$661 billion in budget authority for appropriated (also known as discretionary) programs for 2002, which is \$4 billion below the level needed, according to CBO, to maintain purchasing power for these programs at their 2001 levels. However, the budget asserts that this level is equal to the OMB estimate of the level needed to maintain purchasing power at the 2001 levels. In any event, the budget itself notes that program reductions of \$20.5 billion must occur in order to accommodate increases for the Administration's discretionary initiatives. To accommodate these initiatives, non-defense programs overall must be cut 6.0 percent relative to what CBO estimates is needed to maintain purchasing power at 2001 levels. To the extent that education and other discretionary initiatives require increases, the cut to other non-defense programs grows even larger.